Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	CC Docket No. 96-45
Federal-State Joint Board on	)	
Universal Service	)	

RESPONSES OF U S WEST, INC.

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SUMMARY

Herein, U S WEST, Inc. ("U S WEST") responds to the Common Carrier Bureau's request for further comment on several issues relating to the universal service proceeding. Below, by category, is a summary of our responses to the questions posed.

Definitional Issues: U S WEST proposes that the Federal Communications Commission ("Commission") establish a Federal Funding Benchmark level which represents a cost cut-off above which no customer living in high-cost areas should have to pay for their service. In order to recover costs for rates below this benchmark level, state and federal policymakers would be given the flexibility to assure that affordable service is provided at comparable rates through various mechanisms, including the basic residential rate, end user common line ("EUCL") charges, state high-cost funds, interconnection rates (which include a share of joint and common overhead), and an interim maintenance of implicit support.

To determine affordability, regulators should look to rates that are charged today. It can be assumed that all of these rates are affordable, since none of the current rate levels have caused a substantial decrease in penetration. It can also be assumed that if customers in one area are able to afford a particular rate, customers in other areas could afford that rate. Certain low-income groups, however, may have a lower affordability threshold than the population at large. These groups should be targeted with specific, explicit low-income support.

Schools, Libraries and Health Care: U S WEST is an active member of an ad hoc group of local exchange carrier ("LEC") representatives committed to improving learning through telecommunications. The ad hoc group has developed a proposal -- "Funds-to-Schools" -- to fulfill the education provisions of the 1996 Act. Highlights of the Funds-to-Schools approach include the following:

- a fixed fund;
- direct school purchasing power;
- accommodates high-cost and low-income areas;
- flexible service offerings;
- augments technology and discount plans currently in place;
- streamlined administration; and
- promotes competition.

U S WEST supports adoption of the Funds-to-Schools approach because it deems all currently available telecommunications transport functionalities eligible for universal service support and provides schools with the opportunity to determine what functionalities best meet their particular needs. The Funds-to-Schools approach's inherent flexibility also promotes competition and does not

require a myriad of additional rules, consistent with the goals of the 1996 Act. Rather than set specific discounts for any number of specific services, the Funds-to-Schools approach allows eligible schools to "shop around" for the best price/package.

High Cost: In order to be designated as an eligible provider, a company must provide all services in the universal service definition either through its own facilities or a combination of its own facilities and those it obtains through resale. All carriers, whether they are price cap or non-price cap companies, deemed to be eligible should receive universal service support.

The Commission should adopt a transitional, bifurcated, high-cost funding plan that initially creates separate high-cost funding mechanisms for non-price cap companies and price cap companies. The latter mechanism should also include all competitive LECs. Non-price cap companies would continue to receive support based on today's existing mechanisms, while price cap carriers and all other eligible carriers would receive support based on a proxy model, such as the Benchmark Cost Model 2 ("BCM2") which targets geographic areas smaller than a wire center.

Proxy Model: The 1996 Act requires that the Commission take final action in this proceeding within six months of the Joint Board's recommended decision. Final action should encompass principles by which a proxy model should function as well as parameters for a universal service funds operation. An industry task force could then develop the details for implementation. Presently, a "Best of Breed" industry group has already begun the process of analyzing the merits of various proxy models and is experimenting with combining model components.

Competitive Bidding: The competitive bidding concept has some merit and should be given consideration. Careful scrutiny should be given to conflicts between competitive bidding and the requirements of the 1996 Act for multiple eligible carriers. Consideration should also be given to the substantial regulatory and administrative oversight requirements that may be necessary.

Benchmark Cost Model: U S WEST continues to advocate targeting high-cost support to an area smaller than a wire center and supports use of Census Block Groups. Wire center level targeting contains significant averaging of costs between high cost to serve customers and low cost to serve customers. If a wire center qualifies for funding based upon its average cost, and a new entrant chooses only to serve lower cost customers in town, then that new entrant receives a windfall and the high-cost customer gets inadequate support leading to inadequate service. Every dollar a new entrant receives from serving a customer whose cost is below the funding benchmark, in reality, should go to another customer who is above the benchmark.

The BCM2 contains many enhancements to the original BCM. These enhancements were developed after extensive public scrutiny and reflect

appropriate modifications which improve the accuracy of the original BCM. Enhancements suggested with the sole purpose of reducing the price tag associated with universal service funding were rejected.

Cost Proxy Model ("CPM") Proposed by Pacific Telesis: The CPM contains components that hold promise, including the grid cell structure. Further analysis needs to be completed before final recommendations on the CPM can be made. At this time, an industry group is evaluating the CPM and the BCM2, and experimenting with ways the models can be combined or individually enhanced using common components.

Subscriber Line Charge/Carrier Common Line Charge ("SLC/CCLC"): The subsidy nature of the CCLC derives primarily from recovering a fixed loop cost from a minutes-of-use ("MOU") based CCLC. Because the CCLC primarily represents the recovery of local loop costs, the appropriate recovery should be through an increase in the EUCL. In the interim, if loop costs are to be borne by providers of interstate telecommunications service, the current MOU charge should be replaced with a flat-rate, bulk-bill charge assessed to interstate toll providers based on their share of interstate MOU.

Low Income: U S WEST supports low-income programs and believes they should continue. It is appropriate for the Commission to reexamine these programs to determine if the current level of funding is sufficient to meet the needs of targeted low-income groups, especially as rates are rebalanced.

Administration of Universal Service Support: Because all carriers should have mechanisms in place for the collection and remittance of taxes, a universal service fund collection requirement should not place an unreasonable burden on any provider. Therefore, it is unlikely that any provider could make a case for de minimis status.

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TO: Common Carrier Bureau

RESPONSES OF U S WEST, INC.

U S WEST, Inc. ("U S WEST") herein responds to the Common Carrier Bureau's recently released request for Further Comment on Specific Questions in Universal Service Notice of Proposed Rulemaking in the above-referenced proceeding.[1]

Definitions Issues

1. Is it appropriate to assume that current rates for services included within the definition of universal service are affordable, despite variations among companies and service areas?

Current rates that produce acceptable levels of service penetration must be assumed to be affordable. To the extent that some areas have higher basic service rates and still retain acceptable penetration levels, these rates (absent significant demographic or income differences) should be considered affordable for other areas as well.

Another way of looking at affordability is to approach the matter from the reverse perspective. As a test of just what rates or rate levels are affordable, an inquiry into "at what point rates become unaffordable" makes sense as a sort of

[1] Public Notice, Common Carrier Bureau Seeks Further Comment On Specific Questions In Universal Service Notice Of Proposed Rulemaking, CC Docket No. 96-45, DA 96-1078, rel. July 3, 1996.

affordability touchstone. Particularly, with respect to the matter of explicit support, the identification of unaffordable rates is a critical component in any inquiry into the affordability of rates.

To the extent that overall service penetration levels are acceptable-to-good in most parts of the United States, the point of general "unaffordability" has not been reached and it can reasonably be concluded that an unaffordable rate must be above the highest of any present rate levels. While it is true that certain demographic groups may experience unacceptable levels of penetration, the affordability level for these groups may be less than that for the population at large. To deal with these identifiable demographic populations, targeted low-income support is the most appropriate universal service subsidy solution, minimizing requirements for explicit support funds. To the extent that rate rebalancing results in basic rates being raised above current basic service rate levels, it is reasonable to expect that the need for targeted income-based support would increase as well.

2. To what extent should non-rate factors, such as subscribership level, telephone expenditures as a percentage of income, cost of living, or local calling area size be considered in determining the affordability and reasonable comparability of rates?

Affordability of basic telephone service may be best gauged by comparing it to other goods and services purchased by consumers, with a particular additur factor to recognize the value associated with basic dialtone's provision of telephonic and data access to a host of other products and services capable of worldwide interconnection. Comparisons might be made to cable TV service, entertainment services, other communications services (e.g., mail, overnight delivery, fax, e-mail, etc.) or other discretionary household expenditures.

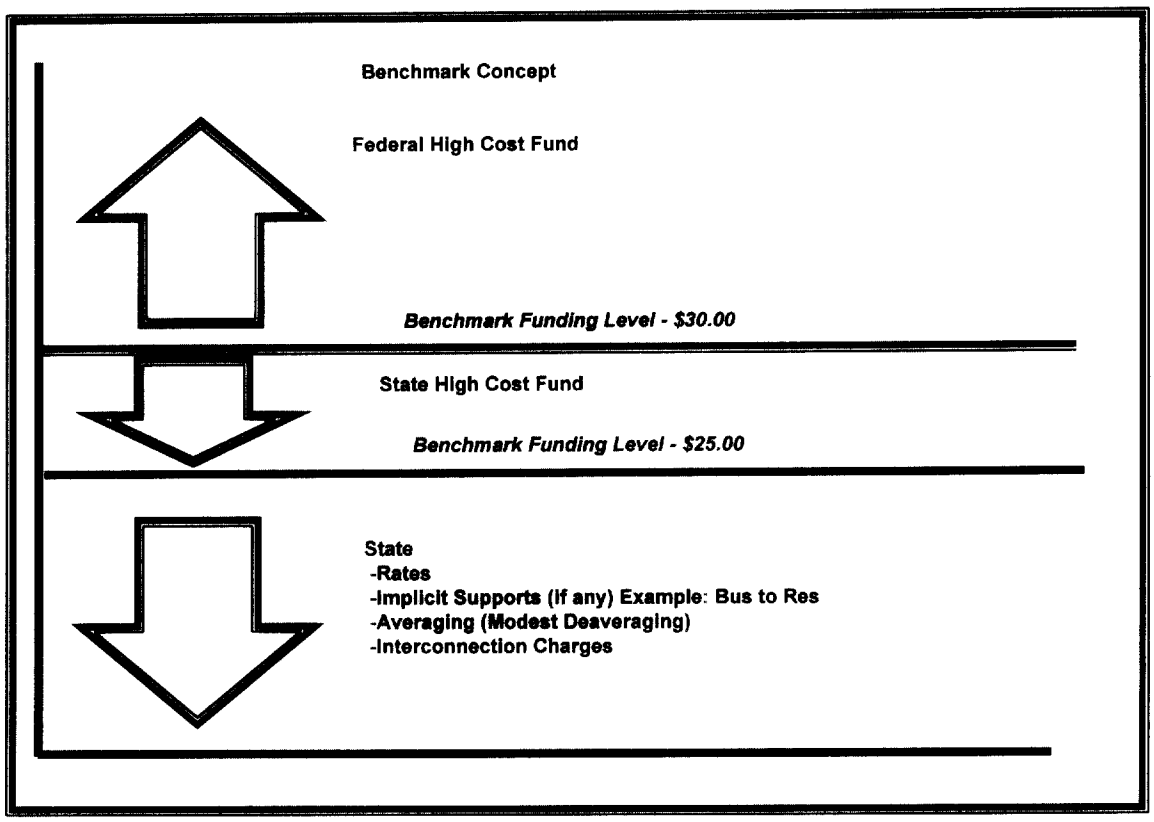
Affordability expressed as a percentage of income could be utilized to differentiate between rates appropriate for the general population and those which are subsidized for lower income groups.

3. When making the "affordability" determination required by Section 254(i) of the Act, what are the advantages and disadvantages of using a specific national benchmark rate for core services in a proxy model?

U S WEST's benchmark funding concept does not imply that the Federal Communications Commission ("Commission") should establish a benchmark rate; but rather it should establish a benchmark funding level. A benchmark rate implies a target rate that all rates should move toward. This is not the intent of the Federal Funding Benchmark ("FFB").

The FFB being proposed is not a target rate, nor does it imply that all rates should move toward its level, especially not in low-cost-to-serve urban areas. It is a cost level that would be used by state and/or federal policymakers to set the maximum amount that a customer would have to pay in those circumstances where the customer was found to be in a high-cost area. The way costs are recovered under the benchmark funding level could be addressed in a myriad of different ways, including through basic rates, end user common line ("EUCL") charges, state high-cost funds, averaging of rates, interconnection rates which include a share of joint and common overhead, or a maintenance of interproduct implicit support, at the discretion of each state regulator.[2]

The diagram below helps to outline the Funding Benchmark concept:



In the above diagram, the Commission would determine that a federal fund should cover all costs above a $30 benchmark level. States and the Commission could then determine how costs below the $30 funding level would be recovered. For example, if the BCM2 [Benchmark Cost Model 2] determines that customers in

[2] The latter should be transitioned to zero over time, per the Telecommunications Act. All support should be explicit. See Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996) ("1996 Act").

a certain Census Block Group ("CBG") cost $80 to serve, $50 of cost would be recovered from the federal high-cost fund. Below the $30 level, the cost would be covered by a combination of basic local rate, EUCL charge, state high-cost fund, interconnection rates, or maintenance of some of the implicit price mechanisms in place today. A commission could decide to increase this group of customers' rates to $26.50 which would mean the cost of this customer's service is covered by a $26.50 rate, a $3.50 EUCL charge and $50 of high-cost support. A state commission may just as easily decide that the rate should only be $15 and that a state high-cost fund should be put in place to cover high-costs between a $25 funding benchmark level and the $30 federal benchmark funding level. The rest of the cost is covered through $6.50 of implicit support.

	Scenario 1	Scenario 2
Federal High-Cost Fund	$50.00	$50.00
EUCL	3.50	3.50
Local rate	26.50	15.00
State High-Cost Fund		5.00
Interconnection Support & Support from other services	0	6.50
Total Cost Covered	$80.00	$80.00

Therefore, states and the Commission would have discretion under the Funding Benchmark level concept on how to cover the costs which fall below the FFB level. This concept is not unlike the methodology used in the funding of today's federal high-cost fund. Rather, it is just a different way of setting the funding level, e.g., instead of 115% of nationwide average costs, it is a $30 cost cut off.

With this understanding of what the benchmark funding concept is, the advantages of using a specific and predictable national benchmark funding level for core services are clearly evident. Such advantages include clearly defined high-cost funding determinations which are provider neutral (if costs are determined by the BCM2), structured such that it is easy to understand the impacts on individual customers and allowing flexibility for the recovery of costs under the benchmark level.

4. What are the effects on competition if a carrier is denied universal service support because it is technically infeasible for that carrier to provide one or more of the core services?

To comport with Congressional intent under the 1996 Act, and to maintain rationality and discipline with respect to any universal service support regime, it is

critical that all carriers meet certain minimum service requirements before being eligible for support. Should a carrier lack the technical feasibility in its own network to provide one or more of the core services, that carrier could purchase a particular feature or service from the incumbent carrier under a resale arrangement or through the purchase of unbundled network elements. If the service in question is technically feasible at all, in an absolute sense, a carrier desiring universal service support should be expected to secure the service from carriers for whom the offering is feasible

5. A number of commenters proposed various services to be included on the list of supported services, including access to directory assistance, emergency assistance, and advanced services. Although the delivery of these services may require a local loop, do loop costs accurately represent the actual cost of providing core services? To the extent that loop costs do not fully represent the costs associated with including a service in the definition of core services, identify and quantify other costs to be considered.

The identification of "core services" to be provided pursuant to universal service initiatives involves, as an element, the local loop. That local loop allows for access to other separate services, e.g., access to directory assistance and access to emergency services. The BCM2 is structured such that costs associated with access to certain services would be recovered. The BCM2 does not incorporate inputs associated with the cost recovery for the provision of discrete services themselves (e.g., directory assistance, emergency services). The costs of provisioning the services that are accessed are not included in the BCM2, as those costs are recovered independently (e.g., through a per-call charge for directory assistance calls above a certain number or an end user surcharge for emergency services).

Schools, Libraries, Health Care Providers[3]

6. Should the services or functionalities eligible for discounts be specifically limited and identified, or should the discount apply to all available services?

[3] U S WEST supports adoption of the Funds-to-Schools approach, a proposal developed by representatives from Ameritech, NYNEX, Southwestern Bell, Bell Atlantic, BellSouth, Pacific Telesis, GTE and the United States Telephone Association. Notwithstanding a general consensus among this ad hoc group as to the Funds-to-Schools approach, there are certain details of this plan about which the participants differ. As such, U S WEST's responses to questions 6-25 may not be fully consistent with the views of any of the group participants.

Currently available telecommunications transport[4] functionalities should be eligible for universal service support to libraries and schools. Specific services need not and should not be defined.

There exist vast differences in the technological readiness of the nation's schools and libraries that require a flexible framework under which the universal service goals of the 1996 Act can be met. The Funds-to-Schools approach recognizes these differences and allows schools/libraries to select the technologies and accompanying applications to meet their individual needs on an ongoing basis.

7. Does Section 254(h) contemplate that inside wiring or other internal connections to classrooms may be eligible for universal service support of telecommunications services provided to schools and libraries? If so, what is the estimated cost of the inside wiring and other internal connections?

Inside wiring or other internal connections should not be eligible for universal service support. Section 254(c)(1)(A) of the 1996 Act requires the Commission to determine what telecommunications services are essential to education and public health.[5] The term "telecommunications service" is defined as "the offering of telecommunications"[6] and the term "telecommunications," in turn, is defined as the "transmission, between or among points specified by the user, of information of the user's choosing, without change in the form or content of the information as sent and received."[7]

The underlying Senate Report further demonstrates the focus on supporting transmission capabilities rather than inside wiring:

> '[T]elecommunications services' includes the **transport** of information or cable services, but not the offering of those services. . . Put another way, the Committee intends the definition of universal service to ensure that the **conduit**, whether it is a twisted pair wire, coaxial cable, fiber optic cable, wireless, or satellite system, has sufficient capacity and technological capability to enable consumers to use whatever consumer goods that they have purchased . . . to interconnect to services that are available over the telecommunications network. The Committee **does not intend** the definition of universal service to

[4] See response to Question 7 below.

[5] 1996 Act, 110 Stat. at 72 § 254(c)(1)(A).

[6] Id., 110 Stat. at 60 amending 47 USC § 153.

[7] Id.

include the purchase of equipment, such as a computer or telephone, that is owned by the consumer and is not integral to the telecommunications service itself.[8]

In short, U S WEST believes that Congress intended universal service funding to support recurring telecommunications costs (e.g., the cost for a 56 Kbps line) and that one-time expenditures (e.g., telephone equipment or inside wiring) should not be so supported.

U S WEST notes that in talking with educators while planning its "Connected Schools" program, we learned that schools have more difficulty funding recurring expenses, like telecommunications transmission services, and that, while inside wire costs can be large, such expenditures may be addressed by other means such as technology or building levies, Net Day community activities or philanthropic donations.

8. To what extent should the provisions of Sections 706 and 708 be considered by the Joint Board and be relied upon to provide advanced services to schools, libraries and health care providers?

Sections 706 and 708 of the 1996 Act should be solely relied upon to ensure that advanced services are provided to schools, libraries and health care providers.[9] These sections direct the Commission, state regulatory bodies, and a new nonprofit organization to encourage the rapid deployment of advanced telecommunications capabilities through regulation, and monetary and administrative assistance from private and federal sectors.

Monitoring the marketplace by way of periodic inquiry, as required under Section 706, appears to be all that is necessary for now. Only after there has been an opportunity to see the market react to the competitive framework embodied in the 1996 Act should a determination be made as to whether or not the Commission must take additional regulatory steps to spur use of advanced services. U S WEST surmises that in the competitive environment envisioned and encouraged by Congress under the 1996 Act, deployment of advanced services -- especially to schools/libraries under the Funds-to-Schools approach -- may develop without the need for any regulatory action.

9. How can universal service support for schools, libraries, and health care providers be structured to promote competition?

[8] Senate Report on S.652 (Report No. 104-230) at 27 (emphasis added).

[9] 1996 Act, 110 Stat. at 153 § 706, 157-60 § 708

U S WEST supports establishment of a program that provides a high degree of flexibility so as to accommodate particular needs and allow changes as technology advances over time. U S WEST believes that the Funds-to-Schools approach offers such a framework. Its very nature also promotes competition.

Under this plan, schools and libraries design a telecommunications plan which meets their individual needs. All eligible area service providers have an equal opportunity to compete to provide the most attractive package to the school. Deep discounts, less out-of-pocket expenditures and, perhaps, ongoing upgrade of services may result. Moreover, the Funds-to-Schools approach plan minimizes regulatory requirements (e.g., no complicated costing formulae are necessary).

10. Should the resale prohibition in Section 254(h)(3) be construed to prohibit only the resale of services to the public for profit, and should it be construed so as to permit end user cost based fees for services? Would construction in this manner facilitate community networks and/or aggregation of purchasing power?

Consistent with the 1996 Act, U S WEST strongly objects to the resale of telecommunications services funded with universal service monies for profit. U S WEST believes, however, that aggregation of traffic by school districts, for example, for the exclusive use of schools and libraries eligible for universal service funding, would not circumvent the provisions of the 1996 Act and would provide increased purchasing power to those entities. As such, in cases where educational authorities determine that a cooperative plan would be the most effective and cost-efficient way of meeting area school/library telecommunications needs, the funding framework should provide some flexibility so as to permit schools and libraries to purchase aggregated services from educational consortia.

11. If the answer to the first question in number 10 is "yes," should the discounts be available only for the traffic or network usage attributable to the educational entities that qualify for the Section 254 discounts?

Yes, access to universal service support should be limited to only those entities deemed eligible under Section 254 of the 1996 Act.

12. Should discounts be directed to the states in the form of block grants?

Under the Funds-to-Schools approach, each eligible school receives a specific amount of funding (based on the ultimate size of the fund). With this amount of funding in mind, each school has the flexibility to develop a technology plan that

meets its particular needs and to directly purchase the desired telecommunications services by means of a "certified coupon" (equal in value to the set allocated amount for each school). The service provider redeems the coupon for reimbursement from the universal service fund.

From an administrative standpoint, it may be more efficient to allocate funding in the form of a block grant to each state (equal to the total funding requirement for every eligible school in the state). The actual method for supplying the funds to the schools is not of utmost importance. Providing schools with the control and flexibility to: 1) design technology plans which meet their particular needs; and 2) choose among various competitive telecommunications providers to implement those plans are the key components to providing universal service to schools and libraries as envisioned by Congress under the 1996 Act.

13. Should discounts for schools, libraries, and health care providers take the form of direct billing credits for telecommunications services provided to eligible institutions?

As discussed in Question 12 above, U S WEST supports the Funds-to-Schools approach which utilizes certified coupons that can be applied toward any telecommunications services currently offered by an eligible provider.

14. If the discounts are disbursed as block grants to states or as direct billing credits for schools, libraries, and health care providers, what, if any, measures should be implemented to assure that the funds allocated for discounts are used for their intended purposes?

An effective, unburdensome framework must be developed to monitor use of universal service funding. Under the Funds-to-Schools approach, the appropriate state or local organization (possibly the Department of Education or the equivalent in each state) would annually certify that a school is eligible for funding. That same body could also be charged with verifying appropriate use of funds by means of a process similar to that for determining the authenticity of a request, as discussed in Question 15 below. For example, a school might be required to periodically submit reports certifying that certain steps have been taken consistent with the initial telecommunications plan it submitted after receiving eligibility certification.

15. What is the least administratively burdensome requirement that could be used to ensure that requests for supported telecommunications services are bona fide requests within the intent of section 254(h)?

Section 254(h) of the 1996 Act requires that a school receive discounted services upon making a bona fide request. U S WEST believes that this request process should be as streamlined as possible, while still meeting the requirements and goals of the 1996 Act.

As noted in Question 14 above, the appropriate state or local educational organization should be provided, under the Commission's rules, with the authority to certify annually that a school is eligible to receive funding. Such institutions clearly have the requisite information to do so in an efficient manner. Once a school has been so certified, in order to demonstrate that its request is genuine (and thus the school is entitled to receive universal service support), the school should be required to submit a plan that defines: 1) what technology is currently available within the school; 2) the goals (consistent with the 1996 Act) the school intends to meet with additional or new technology/services; and 3) how it proposes to meet those goals and the timeframe within which the goals will be met. This information will not only assist in verifying the sincerity of the plan, but also could be used as a benchmark for the verification process discussed in Question 14 above, as well as tracking the provision of advanced services as discussed in Question 8 above.

16. What should be the base service prices to which discounts for schools and libraries are applied: (a) total service long-run incremental cost; (b) short-run incremental costs; (c) best commercially-available rate; (d) tariffed rate; (e) rate established through a competitively-bid contract in which schools and libraries participate; (f) lowest of some group of the above; or (g) some other benchmark? How could the best commercially-available rate be ascertained, in light of the fact that many such rates may be established pursuant to confidential contractual arrangements?

As discussed in Question 9 above, U S WEST believes that the most flexible and efficient model for meeting the goals of the 1996 Act would be -- like the Funds-to-Schools approach -- one in which service-provider discounts to schools and libraries are decided by the competitive marketplace. Such a model not only provides schools with direct purchasing power, but it is also consistent with promoting a less regulated, competitive environment as envisioned by Congress under the 1996 Act. Solutions (a)-(d) require complex formulae and increased regulatory oversight.

17. How should discounts be applied, if at all, for schools and libraries and rural health care providers that are currently receiving special rates?

By placing direct purchasing power in the hands of the schools and by not mandating specific technologies or services, the Funds-to-Schools approach integrates more naturally with existing and future state legislative and regulatory

discount programs and funding initiatives. Such an approach allows schools to supplement technological gains already made: they may design a plan that augments the telecommunications services they currently receive or simply maintain those services (if they are adequately meeting their needs) and apply universal service support towards them.

18. What states have established discount programs for telecommunications services provided to schools, libraries, and health care providers? Describe the programs, including the measurable outcomes and the associated costs.

U S WEST is unaware of any state in the fourteen states in which it provides local exchange services which has established a discount telecommunications program.

19. Should an additional discount be given to schools and libraries located in rural, insular, high-cost and economically disadvantaged areas? What percentage of telecommunications services (e.g., Internet services) used by schools and libraries in such areas are or require toll calls?

A portion of the universal service funding for schools must be allocated specifically to address the needs of schools which have exceptionally high transport charges. Economically disadvantaged locations should similarly be accommodated with additional funds.

U S WEST has no specific data regarding what percentage of telecommunications services used by schools and libraries in such rural, insular, high-cost and economically disadvantaged areas require toll calls. U S WEST estimates that about 30% of the schools in U S WEST's territory are outside of metro areas and will likely require such additional funding.

20. Should the Commission use some existing model to determine the degree to which a school is disadvantaged (e.g., Title I or the national school lunch program)? Which one? What, if any, modifications should the Commission make to that model?

The Commission should utilize an existing federal or state model to determine which schools qualify as disadvantaged.

21. Should the Commission use a sliding scale approach (i.e., along a continuum of need) or a step approach (e.g., the Lifeline assistance program or the national school lunch program) to allocate any additional

consideration given to schools and libraries located in rural, insular, high-cost, and economically disadvantaged areas?

In order to determine whether a school or library should receive additional funding because of its status (e.g., economically disadvantaged or rural), the Commission should consider factors such as the number of economically disadvantaged students, the number of total students, and the distance to the nearest carrier central office.

22. Should separate funding mechanisms be established for schools and libraries and for rural health care providers?

U S WEST recommends that the Commission establish a single mechanism for funding universal service to schools, libraries and rural health care providers. Allocation and administration of funds directed towards schools/libraries should be separate from those directed towards health care providers, since the two groups have separate requirements under the 1996 Act.

23. Are the cost estimates contained in the McKinsey Report and NII KickStart Initiative an accurate funding estimate for the discount provisions for schools and libraries, assuming that tariffed rates are used as the base prices?

The NII Kickstart Initiative appears to be a good starting point for determining the amount of funding necessary to provide telecommunications services to schools consistent with Kickstart's Partial Classroom model.

24. Are there other cost estimates available that can serve as the basis for establishing a funding estimate for the discount provisions applicable to schools and libraries and to rural health care providers?

At this time, U S WEST has no pertinent information responsive to this question.

25. Are there any specific cost estimates that address the discount funding estimates for eligible private schools?

At this time, U S WEST has no pertinent information responsive to this question.

High Cost Fund

General Questions

26. If the existing high-cost support mechanism remains in place (on either a permanent or temporary basis), what modifications, if any, are required to comply with the Telecommunications Act of 1996?

There are two types of existing high-cost mechanisms: explicit and implicit. Under the bifurcated system proposed by U S WEST, existing explicit support (i.e. USF and DEM) would remain in place (possibly with modifications) for non-price cap companies. Price cap companies would not be eligible for existing mechanisms and would qualify for funding based on a proxy-costing model and a FFB.

Existing explicit high-cost support mechanisms are premised on the averaging of costs at the study area level. As a result, there are significant implicit supports reflected within the present system. Since the 1996 Act frowns on implicit supports, requiring them to be removed and replaced with "specific, sufficient and predictable" explicit support mechanisms,[10] the present system must be augmented by some additional targeted high-cost funding mechanism(s).

For small rural telephone companies, implicit high-cost supports created by averaging low-cost areas and high-cost areas probably do not play a significant role, since most of the territory served by such companies can be classified as high-cost. Current mechanisms may meet the standards of the 1996 Act for these companies.

27. If the high-cost support system is kept in place for rural areas, how should it be modified to target the fund better and consistently with the Telecommunications Act of 1996?

Some changes, such as those mentioned in earlier comment rounds (e.g., elimination of 100% funding, reasonableness checks for expenses, etc.) may be necessary to assure that funding to non-price cap (predominantly rural companies) is efficient and predictable. Targeting below the wire center is necessary for both rural and urban areas served by price cap companies, which is why U S WEST proposes the use of a proxy model to replace the existing mechanisms for price cap companies.

[10] 1996 Act, 110 Stat. at 73 § 254(d).

28. What are the potential advantages and disadvantages of basing the payments to competitive carriers on the book costs of the incumbent local exchange carrier operating in the same service area?

Whatever the advantages of basing payments to competitive carriers on an incumbent LEC's book costs, those advantages are not grounded in sound, rational, economic theory. Rather, they are based on the difference between the cost structure of the incumbent LEC vis-à-vis the new entrant. To the extent that a LEC has greater costs than the new entrant, and the new entrant receives universal service recompense based on the incumbent LEC's costs, the new entrant might well receive high-cost support above and beyond any costs incurred by the new entrant, i.e., a sort of "windfall." Furthermore, to the extent that a LEC's book costs are kept only on a state basis, the use of book costs sets up a support model based on a fairly large piece of geography, i.e., the state. A competitive carrier could serve anywhere within a state (including areas that were not, in fact, high-cost to serve) and become eligible for high-cost support funding. While this may be an "advantage" to the competitive carrier, it is a clear "disadvantage" to the universal service support process.

U S WEST is on record as advocating that a state is much too large an area to allow for targeted universal service support. Use of a proxy cost from a BCM2-type model, incorporating costs by CBGs, ensures that all carriers make economically-based decisions about whether to serve a specific, targeted, geographic area at the current point in time -- independent of LECs' historic or current costs. By utilizing a proxy model based upon currently available technology, the decision to serve or not to serve a community can be based on a comparison of appropriate costs of providing service with the potential revenue stream (including high-cost support) -- a far better determinant of whether or not to enter a market than an incumbent LEC's book costs.

The principle disadvantage of basing payments to new market entrants on the book costs of the incumbent is that, with telecommunications equipment costs declining significantly over time, new entrants could be compensated for more than their actual costs of service. Some entrants could be tempted to "game" the system by entering markets to get high-cost fund dollars. This would frustrate the Commission's goals for the efficient evolution of local competition, and result in higher funding requirements.

29. Should price cap companies be eligible for high-cost support, and if not, how would the exclusion of price cap carriers be consistent with the provisions of section 214(e) of the Communications Act? In the alternative, should high-cost support be structured differently for price cap carriers than for other carriers?

Excluding price cap carriers from the ability to receive high-cost support in all circumstances would not be consistent with the 1996 Act, to the extent those carriers qualify for or are declared "eligible carriers." Price cap carriers must be eligible for high-cost support, if they serve areas defined as high-cost, unless they are given total freedom to remove implicit supports from their rate structures through rate rebalancing or they can withdraw from providing service to the area.

Price cap carriers should receive high-cost support in a manner consistent with price cap regulation. That is, support should not be based on a revenue requirement model (i.e., a return on investments plus the recovery of expenses). Rather, determining support from a properly-designed proxy model, such as the BCM2, is more appropriate. Just as price cap regulation offers incentives to carriers to reduce costs and increase efficiencies, the BCM2 incorporates network technology and other assumptions consistent with the notions of cost reduction and efficiency.

U S WEST supports a universal service high-cost support model whereby price cap companies are treated differently from non-price cap companies, at least initially. We support a transition plan which bifurcates the type of support provided to non-price cap companies receiving high-cost support from today's existing mechanism and the support mechanism used for price cap and all other providers. All providers except non-price cap companies should receive support based on a proxy model such as BCM2.

30. If price cap companies are not eligible for support or receive high-cost support on a different basis than other carriers, what should be the definition of a "price cap" company? Would companies participating in a state, but not a federal, price cap plan be deemed price cap companies? Should there be a distinction between carriers operating under price caps and carriers that have agreed, for a specified period of time, to limit increases in some or all rates as part of a "social contract" regulatory approach?

Companies who meet eligible telecommunications carrier requirements and file interstate price cap tariffs should be eligible for federal high-cost funding plan(s), although the particulars of those plans might differ from those established for non-price cap companies (see previous response). State fund qualifications should be determined through individual state rulemaking proceedings.

31. If a bifurcated plan that would allow the use of book costs (instead of proxy costs) were used for rural companies, how should rural companies be defined?

The 1996 Act defines rural companies.[11] U S WEST recommends that a better demarcation point for bifurcation for universal service high-cost funding purposes would be price cap versus non-price cap status. New market entrants should qualify for funding based on state requirements for "eligible carriers" and should be funded at the level developed through the benchmark funding process.

32. If such a bifurcated approach is used, should those carriers initially allowed to use book costs eventually transition to a proxy system or a system of competitive bidding? If these companies are transitioned from book costs, how long should the transition be? What would be the basis for high-cost assistance to competitors under a bifurcated approach, both initially and during a transition period?

As proposed by U S WEST, during the initial four-year introduction period for proxy-based support, non-price cap companies could be provided the opportunity to make an irrevocable election of proxy-based support rather than actual cost-based support. Following the evaluation of this plan in the fourth year, the Commission could conclude that some transition of non-price cap companies to proxy-based funding would be appropriate. However it would be premature to prejudge the outcome, at this time.

33. If a proxy model is used, should carriers serving areas with subscription below a certain level continue to receive assistance at levels currently produced under the HCF and DEM weighting subsidies?

The Commission here actually seems to be asking two questions. The answer to the question of whether, under a proxy model, carriers should continue to receive assistance if subscription is below a certain level actually involves two considerations. If subscription is low because the carrier receiving support has refused to provide service to customers clearly within the designated serving area, then the carrier should be denied any further high-cost support. On the other hand, to the extent that the low subscription levels were the result of an influx or increased concentrations of low-income customers, targeted low-income support may be necessary rather than depriving the receiving carrier of any high-cost support at all.

The other part of the question is whether, under a proxy model, carriers should receive assistance at levels currently produced by the HCF [High-Cost Fund] and DEM [Dial Equipment Minutes] subsidies. Unlike the prior answer, which was

[11] 1996 Act, 110 Stat. at 60 § 3(a)(47) amending 47 USC § 153.

affected by factual variables, the answer to this question is an unequivocal "absolutely not." The 1996 Act clearly contemplates and supports explicit high-cost support. Therefore, support levels should be based on a defined FFB level, with a clear intention to transition away from implicit support to explicit support.

Proxy Models

34. What, if any, programs (in addition to those aimed at high-cost areas) are needed to ensure that insular areas have affordable telecommunications service?

As U S WEST has stated in our filed comments, Lifeline, Link-up and Telecommunications Relay Service programs should continue to be made available.

35. US West [sic] has stated that an industry task force "could develop a final model process utilizing consensus model assumptions and input data," US West comments at 10. Comment on US West's statement, discussing potential legal issues and practical considerations in light of the requirement under the 1996 Act that the Commission take final action in this proceeding within six months of the Joint's Board's recommended decision.

The 1996 Act requires the Commission to take final action in this proceeding within six months of the Joint Board's decision In this unique case, the Commission can meet the terms of the statute by issuing an order defining the principles by which a particular proxy model should function, as well as specific parameters for the operation of a universal service fund. Details of implementing the order could then be developed by an industry task force, operating with appropriate Commission oversight. Implementation might include, for example, the addition of certain variables to any chosen proxy model, if said variables -- for example -- rendered the output more "specific" or "predictable." Additionally, while the Commission would need to set appropriate policies around the matter of fund collection and disbursements, the details of the process could be worked through subsequent to the issuance of the Commission's order.

36. What proposals, if any, have been considered by interested parties to harmonize the differences among the various proxy cost proposals? What results have been achieved?

From the beginning, U S WEST indicated a willingness to socialize the BCM with regulators and interested industry participants. Workshops were held to familiarize participants with the particulars of the BCM and to facilitate discussion

of the model itself. The BCM was made available to those desiring to do their own calculations. BCM2 includes many enhancements based upon the comments of industry members and regulators. In this sense, BCM2 is the proxy leader in terms of harmonizing differences between and among proxy proposals, reflecting as it does multiple industry viewpoints.

Additional industry meetings are being held to come to agreement on the proper scope of engineering practices as reflected in the modeling process. Furthermore, a number of LECs, including U S WEST and Pacific Telesis, continue to pursue a "best of breed" process in an attempt to come to a common view of an appropriate proxy model for the targeting of high-cost support.

37. How does a proxy model determine costs for providing only the defined universal service core services?

BCM2 designs and costs out a network sufficient to provide the defined basic telephone services.

38. How should a proxy model evolve to account for changes in the definition of core services or in the technical capabilities of various types of facilities?

On a periodic basis (e.g., every two years) the proxy model chosen as part of the high-cost funding solution could be updated to incorporate the latest definition of core services for the latest technology. For example, BCM2 provides a basic network architecture that can be used as a foundation for a number of wireline transmission technologies. If, over time, the definition of core services were to evolve, for example, to include digital loop facilities to a customer premise based upon a specified bit rate, BCM2 could be modified to provide the cost. While some modification of the programming code may be required, the vast majority of changes would be to inputs, such as prices for different network components. For instance, switch costs would need to include interfaces for digital line connections and loop carrier systems costs would need to be modified to provide digital service from the remote terminal to the customer premise.

39. Should a proxy model account for the cost of access to advanced telecommunications and information services, as referenced in section 254(b) of the Act? If so, how should this occur?

At this time, no proxy model should be required to be designed to account for the cost of access to advanced telecommunications and information services, above and beyond those that are included in any definition of "core services" (varying as

that might between residential markets and education/health care markets). There is simply no sound reason for requiring such capability in a model being designed and utilized for high-cost support within a contemporary definition of universal service. However, any chosen proxy model should have sufficient flexibility built into it (or capable of being added at reasonable expense) so that it has a continued vitality and usefulness over time and can account for access to those advanced telecommunications and information services that might be incorporated into the menu of core services in the future.

40. If a proxy model is used, what, if any, measures are necessary to assure that urban rates and rates in rural, insular, and high-cost areas are reasonably comparable, as required in Section 254(b)(3) of the 1996 Act.

Determination of the level of affordability and comparability could be achieved by the establishment of a federal "affordability benchmark" (i.e., the FFB). The FFB would be established to represent a price above which, as a matter of federal policy, basic service is deemed to be not affordable and should be subsidized by an explicit federal high-cost funding mechanism. U S WEST recommends a FFB of $30 a month.

If the proxy model is used as the basis for a federal benchmarked fund, as proposed by U S WEST, states would be responsible for the establishment of reasonably comparable rates. Such could be accomplished through a variety of mechanisms including state universal service funds, interconnection rates which include a share of joint and common overhead, averaging of rates or continuance of implicit supports in the short term.

41. How should support be calculated for those areas (e.g., insular areas and Alaska) that are not included under the proxy model?

BCM2 analysis is being performed for all 50 states and the District of Columbia as well as Puerto Rico, the Virgin Islands and Micronesia. U S WEST believes that any proxy model ultimately adopted by the Commission should be able to calculate high-cost fund support for all the above-identified elements.

42. Will support calculated using a proxy model provide sufficient incentive to support infrastructure development and maintain quality service?

Support calculated using the BCM2 should provide sufficient incentives for carriers to continue with infrastructure development and the maintenance of quality service. This is because BCM2 was designed to include all relevant costs to provide basic local service. The default input values in the BCM2 reflect a

consensus on the issue of those costs that LECs and new entrants face when providing service today.

While the BCM2 (with its consensus defaults) reflects costs sufficient to provide incentives to maintain quality service today, changing those input values drastically could produce a similar change in the BCM2 results and its logical incentives. Sufficient incentive to develop and maintain a high quality telecommunications network will be assured if carriers can be reasonably certain that, through a combination of targeted high-cost funding and rates for services they are able to recover their costs and earn a reasonable return on their investment. If inputs to any proxy model are so manipulated that they no longer reflect the economic reality of installing and maintaining telephone plant, the model will cease to reflect economic realities. As a result, the outcomes from the model will cease to reflect any incentives for carriers to support infrastructure development and maintain service quality.

43. Should there be recourse for companies whose book costs are substantially above the costs projected for them under a proxy model? If so, under what conditions (for example, at what cost levels above the proxy amount) should carriers be granted a waiver allowing alternative treatment? What standards should be used when considering such requests?

One of the principle benefits expected to be derived from the use of a proxy model is the reduction in the amount and cost of regulation. If the initial application of proxy-based support is confined to price cap companies, as U S WEST proposes, then -- assuming a properly constructed proxy model -- the "law of large numbers" should mitigate areas where costs are underestimated with those where costs are overestimated.

Given that the proxy method is predicated on current technology and costs, it is unreasonable to expect that actual and proxy costs will be the same. Indeed, it is predictable and expected that they will not be. Therefore, nothing formulaic should be written into the Commission's rules or processes to address or accommodate those companies whose book costs might substantially exceed costs projected for them under a proxy model. However, a waiver process should be allowed under certain circumstances (which should be rare). Only in those circumstances where a company can demonstrate a materially adverse effect on its overall ability to recover costs should the Commission entertain a waiver request.

44. How can a proxy model be modified to accommodate technological neutrality?

No model can provide the least-cost formula for all technological alternatives. However, basic assumptions can be made which provide limited choices among technologies and still adequately reflect important technological and cost trade-offs. Such was in fact done with the BCM2. For example, BCM2 reflects wireless alternatives where they are more economical than wireline. Similar enhancements could be added as new technology becomes available.

45. Is it appropriate for a proxy model adopted by the Commission in this proceeding to be subject to proprietary restrictions, or must such a model be a public document?

The Commission poses the above question as though an affirmative answer to one part of the question necessarily requires a negative response to the other part, i.e., an "either/or" approach. However, that is not necessarily the case. A model can be subject to certain proprietary restrictions, consistent with intellectual property law (such as no copying or charging a reasonable license fee for access to the property), while still allowing the model -- for all material purposes -- to be available to the public. Proper protective devices can also be used for extremely sensitive information. Thus, not all proprietary restrictions should be forbidden. But any proprietary restrictions imposed should not interfere with the ability of affected parties to make meaningful and investigative use of the model.

46. Should a proxy model be adopted if it is based on proprietary data that may not be available for public review?

Within the context of the current situation, i.e., the creation and distribution of a multi-billion dollar fund, no proxy model that is based on proprietary data, unavailable to the general public for review, inspection and analysis in a reasonable time frame should be adopted. A contrary decision would be arbitrary and capricious.

47. If it is determined that proprietary data should not be employed in the proxy model, are there adequate data publicly available on current book costs to develop a proxy model? If so, identify the source(s) of such data.

This question assumes that if proprietary data should not be employed in a proxy model that publicly-available data "on current book costs" might appropriately be used as a surrogate. U S WEST disagrees. A well-designed proxy model, such as that advocated by U S WEST, would not use actual current book costs, in any event. Thus, their availability would be irrelevant.